

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SCEM-02 INT-08 NEA-10 EUR-25 SPC-03

AID-20 EB-11 NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20

STR-08 OMB-01 CEA-02 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 PA-04 PRS-01 USIA-15 ACDA-19

IO-14 COME-00 FRB-02 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /249 W

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P R 262025Z OCT 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 1606

INFO AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: ENRG VE

SUBJ: POSSIBLE DIVERSION OF VENEZUELAN OIL

REF: CARACAS 9164

1. EMBASSY HAS NOW DISCUSSED PROBLEM DESCRIBED REFTEL WITH HEADS OF TWO MAJOR AMERICAN OIL COMPANIES HERE, DOLPH OF CREOLE (EXXON) AND RAMSEY OF MENE GRANDE (GULF). BOTH DOLPH AND RAMSEY ARE SERIOUSLY CONCERNED ABOUT POSSIBILITY THAT GOVERNMENT WILL REQUIRE PAYMENT OF ROYALTIES IN OIL AND ARE DISTURBED AT IMPLICATIONS FOR THEIR REFINERY OPERATIONS AND SUPPLY POSITION. THEY BOTH BELIEVE IT WOULD BE HIGHLY DESIRABLE FOR AMERICAN AMBASSADOR TO TAKE UP ROYALTY OIL PROBLEM, UNDER INSTRUCTIONS, WITH VENEZUELAN GOVERNMENT.

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2. DOLPH BELIEVES (AND EMBASSY CONCURS) THAT BEST APPROACH WOULD BE FOR AMBASSADOR NOT TO TAKE UP SPECIFICALLY AND UNIQUELY PROBLEM OF ROYALTIES BUT INCLUDE THIS PROBLEM IN DISCUSSION OF OVERALL ENERGY SITUATION. AMBASSADOR MIGHT BEGIN BY DESCRIBING VERY SERIOUS PROBLEMS THAT U.S. IS FACING AS A RESULT OF ARAB OIL BOYCOTT AND EXPRESS HOPE THAT VENEZUELA CAN BE COUNTED UPON AS IN PAST TO MAINTAIN NORMAL SUPPLY AVAIL-ABILITIES TO U.S. AMBASSADOR MIGHT FURTHER EXPRESS HOPE THAT VENEZUELA WOULD AVOID ANY KIND OF ACTION THAT MIGHT REDUCE AVAILABILITIES TO U.S., SUCH AS: YIELDING TO ANY ARAB PRESSURE THAT MIGHT COME TO SUPPORT BOYCOTT; REDUCING OVERALL PRODUCTION, FOR CONSERVATION OR FOR ANY OTHER REASONS; OR MANAGING OIL ROYALTIES IN A WAY THAT COULD LEAD TO DISRUPTION OF NORMAL SUPPLY CHANNELS.

3. REGARDING OIL COMPANIES' OFFER TO MAKE HIGHER CASH ROYALTY PAYMENTS, BOTH DOLPH AND RAMSEY SAY THAT NEW ROYALTY FORMULA THEY SUGGESTED TO MINISTRY, WHICH WAS BASED ON ADJUSTMENTS TO CERTAIN U.S. CRUDE PRICES, WOULD HAVE YIELDED, TWO WEEKS AGO WHEN IT WAS SUGGESTED, A ROYALTY PAYMENT VIRTUALLY EQUAL TO THAT WHICH WOULD HAVE RE- SULTED FROM CALCULATING ROYALTIES ON BASIS OF VENE- ZUELAN TAX REFERENCE VALUES. NOW, OF COURSE, WITH VENEZUELA ABOUT TO ANNOUNCE LARGE INCREASE IN TRV'S, THAT FORMULA WOULD AGAIN LEAVE ROYALTIES AT TOO LOW A LEVEL. BOTH DOLPH AND RAMSEY EMPHASIZED READINESS OF THEIR COMPANIES TO ACCEPT A NEW FORMULA THAT WOULD, EITHER DIRECTLY OR INDIRECTLY, INCREASE CASH ROYALTY PAYMENTS TO LEVELS THAT WOULD BE INDICATED BY NEW TRV'S TO BE ANNOUNCED FOR NOVEMBER.

4. DOLPH AND RAMSEY STATE THAT ALTHOUGH ALL OF OIL IMPORTING COUNTRIES ARE FACING VERY DIFFICULT OIL SUPPLY SITUATION, PROBLEM OF BRAZIL IS PARTICULARLY ACUTE BECAUSE OF ITS RELIANCE ON SPOT MARKET WHICH NO LONGER EXISTS (SYSTEM OF PERIODIC OIL IMPORT TENDERS) AND ITS CONSEQUENT LACK OF ESTABLISHED RELATIONSHIPS WITH SUPPLIERS. BRAZIL STATE OIL COMPANY IS SAID TO BE IN DESPERATE NEED RIGHT NOW OF LIMITED OFFICIAL USE

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300,000 B/D OF CRUDE AND IS SAID TO BE PUTTING VERY HEAVY PRESSURE ON POSSIBLE SOURCES SUCH AS COMPANIES WITH OIL MARKETING OPERATIONS IN BRAZIL AND VENEZUELAN GOVERNMENT. FURTHERMORE, ENERGY MINISTERS OF MANY LATIN NATIONS CAN BE EXPECTED TO PUT STRONG PRESSURE ON VENE- ZUELAN HYDROCARBONS MINISTER PEREZ, AT OCTOBER 29 CONFERENCE OF LATIN AMERICNA ENERGY MINISTERS, TO SUPPLY VENEZUELAN OIL TO THEIR MARKETS.

5. IN VIEW OF ALL OF THE PRESSURES ON THE VENEZUELAN GOVERNMENT, BOTH DOMESTIC AND INTERNATIONAL, THE CHANCES OF DISSUADING VENEZUELAN GOVERNMENT FROM TAKING ROYALTIES IN FORM OF CRUDE OIL MUST BE CONSIDERED LESS THAN GOOD. NEVERTHELESS, IN VIEW OF OUR OWN NEEDS, OUR HISTORIC RELATIONSHIP AS STEADY CUSTOMER FOR VENEZUELAN OIL, AND VENEZUELA'S PAST RECORD OF MAINTAINING ENERGY SHIPMENTS TO U.S. IN TIME OF CRISIS, EMBASSY BELIEVES THAT IT WOULD BE WORTHWHILE TO REQUEST ASSURANCES FROM VENEZUELAN GOVERNMENT ALONG LINES SUGGESTED IN PARAGRAPH 2 ABOVE. EMBASSY WILL AWAIT VIEWS AND INSTRUCTIONS OF DEPARTMENT BEFORE TAKING ANY ACTION. SEPTEL DESCRIBES PROCEDURES APPLICABLE TO PAYMENT OF ROYALTIES IN OIL AND DIS- CUSES GOVERNMENT'S OBLIGATION TO GIVE 90 DAY NOTICE BEFORE REQUIRING PAYMENTS IN CRUDE OIL.

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